

EIB INFORMATION

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Annual Meeting of the Board of Governors

At its annual meeting on 9 June 1992 in Luxembourg, the European Investment Bank's Board of Governors unanimously approved the Bank's 1991 annual report and balance sheet. Meeting under the chairmanship of the Governor for Ireland, Mr Bertie Ahern, Minister for Finance, the Board of Governors, made up of a Government Minister from an EC Member State, usually the Minister for Finance, was presented with the EIB's annual report on behalf of the Board of Directors by Dr Ernst-Günther Bröder, EIB President, who chairs the Board of Directors. The main part of his introductory address is reproduced below.

The Governors congratulated the Board of Directors, Management Committee and staff on their contribution to the development of the European Community and for maintaining the quality of the Bank's lending while improving its professionalism and productivity and extending the range of its activity. They welcomed the Bank's performance, confirming its role as the Community's "in-house" financing institution using sound banking methods to implement EC policies.

The Board of Governors expressed their satisfaction at the constructive and pragmatic way in which the EIB had taken on new tasks inside the Community, and outside the Community in the context of the EC's cooperation policy towards third countries. They emphasised that the Bank should continue to place the main focus of its activity on furthering development in the Community's less-favoured regions as highlighted in the Protocol on economic and social cohesion attached to the Maastricht Treaty on European Union. At the same time the EIB is to continue promoting the economic and social cohesion of the Community by supporting infrastructure

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EUROPEAN INVESTMENT BANK

BANCO EUROPEO DE INVERSIONES

BANQUE EUROPEENNE D'INVESTISSEMENT

BANCA EUROPEA PER GLI INVESTIMENTI

EUROPESE INVESTERINGSBANK

BANCO EUROPEU DE INVESTIMENTO



investment to improve trans-European transport, telecommunications and energy networks. They also underlined the importance of providing further finance for projects that help protect the environment and enhance the competitiveness of the Community's industry. While the Maastricht decisions did not set the Bank new priorities, the Governors noted that the commitments on economic and monetary union changed the context for its activities and made its role and the quality of investment financed even more important.

They also highlighted the importance of ensuring the optimum combination of EIB loans and grants from the Structural Funds in furthering EC priority objectives. This was underlined by EC Commissioner Henning Christophersen, who participated as an observer, when he welcomed the close collaboration that existed between the EIB and the Commission to ensure an effective utilization of resources.

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Mr Chairman,
Gentlemen,

In 1991, the European Investment Bank increased its lending to 15.3 billion ecus, a rise on a year earlier of 14.5% in nominal terms and over 9% in real terms. Disbursements were of the same order of magnitude as lending and to finance them the Bank increased its borrowing on capital markets by almost 25%.

Operations within the Community amounted to 14.4 billion ecus ; loans were made in all Member Countries and contributed towards aggregate investment of close on 60 billion ecus, equivalent to some 5.7% of overall capital investment within the EEC.

Lending for the development of the less favoured regions of the Community, which is the EIB's priority objective reaffirmed by the Treaty on European Union, rose by over one billion ecus to account for some 63% of total Bank financing. Around 90% of this went to projects in regions assisted through the Community's Structural Funds. The growth in lending was particularly marked in Spain, Portugal, Greece and the new German Länder.

The Bank also helped to strengthen economic and social cohesion within the Community by supporting transport and telecommunications networks in the various regions as well as communications links benefiting the Community more generally. Financing for environmental protection projects centred largely on improving water quality and combating atmospheric pollution.

There was a declining trend in lending for projects helping to enhance the international competitiveness of industry and further its integration at European level; but financing for SMEs gained momentum. Moreover, there was a sharp upturn in demand for loans in the energy sector, particularly for electricity and gas transmission and supply as well as for energy-saving equipment.

Outside the Community, EIB financing amounted to 916 million, including loans in Hungary, Poland and, for the first time, Romania. Lending in the Eastern European countries was mainly to finance infrastructure and to provide lines of credit for small and medium-sized enterprises.

In the ACP countries, entry into force of the fourth Lomé Convention led to a significant revival in activity, notably in favour of the private sector and drawing on risk capital resources.

In the southern Mediterranean countries, lending continued under the current financial protocols. In the republics making up the former Yugoslavia, the Bank is not undertaking any new operations but, where feasible, it is maintaining contacts with its borrowers and the authorities concerned and, in certain republics, it is continuing with the implementation of existing projects.

Special mention should be made of the widening spread of initiatives being taken to safeguard the environment. Following the measures designed to protect the Mediterranean, these now cover the Baltic Sea and the Elbe and Danube River basins as well. These initiatives were taken in a context of international cooperation involving the Commission as well as other institutions.

To finance its lending activity, the Bank raised a total of 13.7 billion ecus in 1991. The volume of its issues on the international bond markets made it the biggest borrower among world financial institutions. It continued to promote use of the ecu which, for the third year running, topped the list of Community currencies borrowed and lent, ahead of the pound sterling, Italian lira, French franc and Deutsche Mark. Indeed the EIB was the leading ecu borrower on international markets and the leading lender of this currency.

At 31 December 1991, the Bank's balance sheet total stood at 74.3 billion as against 62.3 billion at the end of 1990. The stock of outstanding loans and guarantees, 72.7 billion ecu, was half the statutory limit, which had been raised to 144 billion ecu by the capital increase at the start of the year. Hence, the Bank has substantial headroom to continue developing its financing activities in support of Community policy priorities.

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Looking ahead, the combination of changes that are in prospect inside and outside the Community will add considerably to the importance of the EIB's task as the Community's "Hausbank". I believe Mr. Chairman, and I do not make this observation lightly, that you will wish us to continue to operate, as we have done in the past, as a banking institution. In considering the changes ahead the Treaty on European Union agreed by the European Council in Maastricht last December is particularly significant and its implications are very far reaching.

It is not for me to comment on the latest political developments, but I would like to assume that the main elements of the Treaty provide an important updating of the policy framework within which the Bank operates ; and by giving a new and powerful impetus towards full economic and monetary union, it changes the economic and financial context in which the Bank lends and borrows in the Community. On both counts the Bank will be closely involved; and it will want to play its full part in the implementation of the parts of the Maastricht Agreement that concern it.

The main element is cohesion, in other words, lending for regional development. This has always been the Bank's main policy objective, accounting for most of its annual lending.

Increasing cohesion is also the main objective of the Community's structural policies and the centrepiece of the Delors II package of measures put forward by the Commission. The Bank will be closely involved as the negotiation of these measures progresses and the outlook for the Structural Funds and the proposed new Cohesion Fund becomes clearer.

In this exercise the Bank will build on experience of cooperation with the Commission over many years, and particularly that developed since the Bank-Commission Agreement of May 1989 to handle the doubling of the Structural Funds agreed in 1988. It is in this context that the Bank will be considering how to make best use of the new facility which has been written into the Treaty whereby, from now on, it will be able to finance investment programmes as well as investment projects.

Helping to increase the international competitiveness of the Community's economy is another way in which the Bank can contribute to the implementation of the Maastricht agreement. This means building on its past experience of lending to industry, including SME. It means too building on its long experience of bringing trans-European networks to fruition. The starting point here is often prefeasibility studies - an area in which the Bank has been increasingly active.

The environment is another element of the Maastricht Agreement that particularly concerns the Bank. In this area too the Bank is already very active, and outside the Community as well as inside it.

In all three areas, namely, cohesion, competitiveness and the environment, the Bank's contribution to the implementation

of the Maastricht Agreement then means in part continuing to expand its activity in the sectors in which it usually operates. This means more than just signing new loans. It also means acting as a catalyst for new investment, adding value as opportunity offers and attracting other lenders to cofinance with the EIB.

This activity will be all the more important in that with the completion of the Single Market and the move to a common currency, a time is probably coming when any financial instrument available anywhere in the Community will be available everywhere in the Community: the Bank will no longer be able to offer financial resources in currencies, maturities and conditions not readily available elsewhere.

The Bank therefore needs to develop its capacity to provide more than finance. It needs increasingly to deliver value added, for example, an emphasis on seeking out projects of particular value to the Community and on monitoring and helping to steer them to successful completion as well as contributing to their financing.

Meanwhile, as the Bank's activity increases in the run-up to Monetary Union and the enlargement of the Community, the Bank will maintain its efforts to achieve greater financial self-sufficiency. Even if new tasks bring forward the timing of the next capital increase - as the Maastricht Agreement envisages may happen - the aims will remain greater financial self-sufficiency and the maintenance of a sound financial structure.

This has implications for risk management. With privatisation and the lessened willingness of governments to provide member state guarantees within the Community, the proportion of outstanding loans guaranteed by private companies and financial institutions has been rising. Other forms of financial risk have also increased, partly because of greater interest rate volatility. The Bank therefore needs to press on with the process which has already started of integrating and managing the different risks so that its total exposure is monitored and managed as a whole.

Looking beyond its traditional activity, the Bank and the Board of Directors have been considering for some years now new ways and means whereby it might support worthwhile investment

of importance to the Community. This is all the more important in the light of the Maastricht Treaty.

Let me turn now to relations with countries outside the Community.

You recently received proposals concerning the Bank's relations with the EFTA countries under the European Economic Area Agreement. These proposals, if you accept them, will bring the Bank into a direct relationship with the 7 EFTA countries. They will also introduce new elements into the Bank's operations in that they provide for the Bank to make grants as well as

to give interest rate rebates on loans in certain regions of the Community.

Relations with the CSFR, Poland and Hungary will be consolidated by the Association Agreements which these countries signed with the Community in December 1991. This is because the Agreements provide for EIB loans to accelerate the economic transformation of the countries concerned and to mitigate the social and economic consequences of the structural adjustment which is necessary there. Similar arrangements are under discussion for Bulgaria and Romania.

EIB President announces retirement

At the annual meeting, EIB President Ernst-Günther Bröder confirmed that in talks with the Governors he had expressed the wish to relinquish his office before it expires in June 1994. He indicated that his decision was made to ensure a smooth handover to his successor before the normal renewal of the Management Committee that year, as well as for personal reasons. Dr Bröder, who reached the age of 65 on 6 January this year, was appointed as President of the EIB with effect from August 1984, initially to complete his predecessor's term of office and then, in June 1988, for a further term of six years.

The Governors noted Dr Bröder's request with regret. They all expressed their recognition of his achievements and, in view of the tasks ahead for the Bank, said they would welcome it if the step announced were not to take effect soon. Speaking also on behalf of their governments, the Governors paid tribute to his contribution to the development of both the Bank and the European Community over the past eight years.

They noted he had made professional solidity and efficiency the distinctive hallmarks of the EIB in developing it as the Community's banking arm and in strengthening its role as a partner on international financial markets. During his presidency, the Bank's annual volume of lending had risen more than twofold, from under ECU 7 billion to over ECU 15 billion. He had also initiated and carried out organisational changes, including ones affecting the Bank's top management, or paved the way for their implementation in the context of the next regular renewal of the Management Committee in 1994. At the same time, he had streamlined decision-making and significantly increased the Bank's productivity.

The Governors remarked that under his leadership the EIB had proved constructive and pragmatic in meeting growing challenges inside and outside the Community. As a major borrower, the Bank had opened up many new markets and furthered the creation of a European financial area. The Bank had constantly adapted the range of its financing formats, responding flexibly to market forces and the needs of project promoters. The substantial volume of funds mobilised by the EIB and its expertise in appraising projects, had made an appreciable contribution to the Community's economic and social cohesion.

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Born in Cologne in 1927, Dr Ernst-Günther Bröder studied at Cologne, Mayence and Paris Universities, and gained his diploma in political science and his Doctorate in economics at Freiburg University. He became a member of the Management Board staff of Bayer AG, Leverkusen, in 1956, moving to the Projects Department at the World Bank, Washington, in 1961. He joined the Kreditanstalt für Wiederaufbau, Frankfurt in 1964 where he became Manager in 1969, a Member of the Management Board in 1975 and was Board Spokesman between 1980 and 1984.

Dr Bröder has also served as Director of the EIB, and as a member of the Special Advisory Group, Asian Development Bank, as well as on the advisory boards of a number of other institutions. He is a Member of the Panel of Conciliators, International Centre for Settlement of Investment Disputes since 1976, and Governor of the European Bank for Reconstruction and Development (EBRD) since April 1991.

Reconstruction is not just a matter of funding, but also, and even more importantly, a matter of proper overall reforms, creation of institutions conforming to the rules of the market and identification of projects that use resources best. This task goes beyond the normal range of this Bank's activity. Therefore cofinancing with other international institutions, including the newly established EBRD, has been a particular feature of the Bank's lending in all the Eastern European countries.

The Mediterranean is another challenging area which is important to the Community, and the Bank is committed to making a success of the renewed Mediterranean policy. One element of this is the renewal of the protocols with the Maghreb and Mashraq countries and Israel. The other element - and this is new - is the provision of sub-

stantial financial resources which have not been allocated in advance on a country by country basis. Most of this will be provided from the Bank's own resources. In addition the Bank will manage risk capital and grants for interest rate subsidies from budgetary funds. This so-called horizontal cooperation is to finance investment which is in the environmental sector or of interest to one or more Mediterranean non-member countries as well as to the Community. Lending in the ACP countries is likely to call for increased attention because of deep-seated problems, particularly in Africa south of the Sahara, and the emphasis that the Bank has been asked to put on lending to the private sector.

A decision taken by the Council last month would provide for a limited extension of the Bank's lending in Latin America and other

parts of the world with which the Community has Cooperation Agreements. This will be put to you for ratification in due course.

In all the areas in which the Bank is active outside the Community, its operations carry special risks. Special precautions therefore have to be taken in the case of loans on own resources in these areas, and the support of guarantees from the Community or Member States is an essential part of this.

The Bank has always managed its affairs in such a way that it has only very rarely had to call on these guarantees; and, so far, each such call has later been reimbursed. Outstanding amounts which have not yet been reimbursed total 7 million ecu, and should be seen in relation to total EIB lending of some 4.7 billion ecu in the ACP and the Mediterranean since the beginning of the Bank's operations there. But I would like to stress the importance that the Bank attaches to having such guarantees. Without them its lending on own resources outside the Community could not continue on its present scale.

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What I have said about activity inside and outside the Community has implications for the Bank's internal organisation and management. The Bank must be able to develop its role in fostering projects of particular interest to the Community from an early stage and it must develop a means to share some of the risk involved. A heavy responsibility rests on the individual members of the Management Committee; and the staff must continue to develop their unique blend of business sense, Community responsibility and technical analysis.

A dialogue on these subjects has been going on for some four years now between the Governors and the Management Committee, driven by a mutual concern for efficiency in the Bank's decision-taking processes. The present organisational structures which have served the Bank well without major alteration for several decades now indeed need some adjustment. On the changes that might be appropriate, the recommendations of outside consultants largely overlapped with the views of the Management Committee and backed up some of the reforms that were already under way.

As to the action to be taken, the responsibilities of the individual members of the Management Committee have already been increased.

EIB studies viability of Transport projects

Last year, the EIB decided to make up to 2 million ecus a year available during the next three years for pre-feasibility studies of priority investment in communications schemes of Community interest. The new facility would resemble the one which the EIB, together with other international organisations, set up in 1990 to finance pre-feasibility studies for environmental investment in the Mediterranean (the METAP programme; see EIB-Information No. 69). In the meantime, some communications studies have been commissioned and are being finalised.

Two of these studies concern main East-West traffic corridors: the Vienna-Budapest and the Nürnberg-Praha/Dresden-Praha corridors. The opening of borders between Eastern and Western Europe has induced important changes in transport patterns and a significant increase in international traffic, necessitating large-scale investment in transport infrastructure. Part of the reason the EIB commissioned the studies is that it may well be involved in the financing.

The East-West corridor between Vienna and Budapest links Western Europe with the Balkan and the Middle East. After the iron curtain fell, increased road traffic has created congestion problems, particularly in the Hungarian city of Győr and on the 60 kilometres of trunk road from Győr to the Austrian border. The feasibility study assesses the viability of improving capacity on this link by constructing a motorway to the Austrian border, including a by-pass around Győr.

The Nürnberg-Praha/Dresden-Praha links also form part of a wider network, involving the European Community and the countries of Central, Eastern and South Eastern Europe. The study the EIB commissioned analyses possible improvements to the road and rail infrastructures and seeks to forecast traffic developments, including intermodal transport.

The EIB is also involved in feasibility studies financed through the Community's PHARE programme. Because of its technical know-how and experience in project appraisal, the Bank has been asked to supervise studies of the present situation of air traffic services in Poland, Hungary, Bulgaria, Romania and the Czech and Slovak Federal Republic. The EIB works together closely with the International Civil Aviation Organisation, Eurocontrol (the European Organisation for Safety of Air Navigation) and the Commission's Directorate-General for transport. It is possible that the EIB will be involved in the financing of the investment necessary to modernise the national air traffic management systems and their integration in the European network.

So far the feasibility studies commissioned or supervised by the EIB have focused on Central and Eastern Europe, where transport and telecommunications problems are particularly acute. However, new initiatives are being developed, especially in connection with improving trans-European communications networks. This is an area on which EIB financing has been increasingly concentrated in recent years and which has been confirmed as a priority at the Maasticht summit. The initial emphasis of upcoming feasibility studies is likely to be on high speed trains and on air traffic.

Meanwhile in a related move, which would be consistent with further transfers of responsibility to the individual members of the Management Committee in due course, there have recently been some changes in the responsibilities of senior management below the level of the Management Committee. The main functions of the Bank are being coordinated into four groups covering respectively lending, finance, economic and technical services and general affairs and administration.

This further step will reinforce the thinking in the Bank about operational requirements that cut across Directorate boundaries. At the same time it will provide

opportunities for regular informal discussion between the Management Committee and the senior managers concerned, permitting better each-way communications between the Management Committee and the Directorates. It is designed to make the most of the accumulated experience of the Bank's senior managers.

The Management Committee's objectives of achieving a more motivated and more highly qualified staff will also be supported by measures which have recently been introduced concerning recruitment, training and internal mobility. These measures are based to some extent on analyses made by the outside consultants as part of

their overall review and they will help the Bank to respond to the rapid pace of change with which it is confronted by maintaining the growth of productivity.

To sum up, it is thus my view that all the structural adjustments now needed have been implemented, initiated or made possible.

Mr Chairman,
Gentlemen,

Let me in conclusion express my personal gratitude and that of my colleagues in the Management Committee to you for your confidence and continuing support.

EIB Cooperation with the EBRD

The European Bank for Reconstruction and Development (EBRD) was established as an international expression of support for countries in Central and Eastern Europe introducing political and market oriented economic reform. The EBRD has currently 43 country shareholders, as well as the European Economic Community and the European Investment Bank. The EIB is often asked about its relations with the EBRD.

The following is a summary of comments by EIB President Ernst-Günther Bröder at the time of the EBRD's annual meeting, in Budapest on 13/14 April 1992. Mr Bröder is a Governor of the EBRD:

Taking into account that the EBRD only came into existence about a year ago, the work it has already completed represents a considerable achievement. We have seen a year in which the EBRD has built up its staff, prepared strategies for countries of its operations and for various sectors, made loans and equity commitments for an equivalent of some ECU 600 million, and launched its first bond issues with an "AAA" credit rating. The EIB has been closely involved with the EBRD from the start. When the European Council of Heads of State and Government at its meeting in Strasbourg in December 1989 decided to establish the EBRD, it also invited the EIB to be instrumental in setting up the new bank.

Since then things have moved quickly. The agreement establishing the EBRD was signed in May 1990 in Paris and came into effect in April 1991. We have been able to provide practical and technical assistance in the EBRD's start up phase. The EIB is a founder member of the EBRD with a 3% share of its capital, and we continue to follow closely its evolution and development

through our seat on its Board of Directors. Its progress has been satisfying to me both as Governor of the EBRD and President of the European Investment Bank.

As President of the EIB, the European Community's long-term financing institution, I was particularly pleased with the EBRD's first ever bond issue of ECU 500 million which was well received in the market last year. The EIB takes a close interest in the ECU's development: we are the largest borrower and lender in the currency, which accounted for 18% of the ECU 13.7 billion equivalent we borrowed on capital markets in 1991.

EIB-EBRD COOPERATION IN EASTERN EUROPE

When considering the activities of the EBRD and the EIB in Eastern Europe, the differences of the two banks must be taken into account. The two institutions have distinct but complementary missions. The main role of the EIB is to support investment furthering the European Community's balanced development and integration. Last year we made loans totalling ECU 15.3 billion, of which 94% was for investment projects within the European Community. The remaining 6% - ECU 916 million - went to investment in non-EC countries, of which ECU 285 million was in Hungary, Poland and Romania.

Outside the European Community, the EIB's financing is part of the EC's cooperation policy towards third countries, with set ceilings on amounts and time periods for commitments. As well as in Central and Eastern Europe, the EIB is active in the 69 African, Caribbean and Pacific states who are signatories to the Fourth Lomé Convention, and under financial protocols in 12 Mediterranean countries.

Authorisation for our activities outside the EC comes from the EIB's Board of Govern-

ors, who last year gave clearance to lend up to ECU 700 million for projects in Bulgaria, CSFR, and Romania. A similar authorisation to finance up to ECU 1 billion in Poland and Hungary was given at the end of 1989. We have so far lent about half the total foreseen in Poland and Hungary, financing projects to modernise and expand electricity and gas supplies, transportation and telecommunications, and helped the activities of small and medium-sized enterprises in cooperation with local banks. We are supporting the emerging commercial banking systems, not only by providing long-term funds through our global loans for financing small and medium-sized projects, but also by sharing know-how and experience.

It is foreseen that the EIB will continue to be active in the region under the new "European Agreements" with the European Community that were signed in December 1991 with Poland, CSFR, and Hungary and which are designed to establish closer economic and political links. Negotiations on similar agreements are being started this year with Bulgaria and Romania. Through financial cooperation provided for under such agreements, these countries will continue to benefit from EIB loans, and aid, including grants, from the Community through the European Commission.

The EBRD's activities are concentrated entirely in Central and Eastern Europe and countries in the former Soviet Union. It has been set up to foster their transition to market economies and to promote private entrepreneurial initiatives, through the provision of loans and equity capital, to stimulate the development of capital markets and provide financial advice and other forms of technical assistance. The EIB's activities, on the other hand, are focused on the provision of long-term loans for priority capital investment projects.

Compared to the EIB, the EBRD's owners have a more global spread, with its shareholders coming from all the continents, including its countries of operation in Central and Eastern Europe. The EIB's Members are the 12 EC countries.

Rather than an overlap of activities, the role of the EIB, the EBRD and other institutions will be cooperative. There is plenty of scope, therefore, for a close working relationship between the EBRD and the EIB.

MEETING EASTERN EUROPE'S NEEDS

The EBRD and our activities in the region form part of an overall international effort of assistance. The European Commission, with whom we are in constant close contact, is acting as aid coordinator for the 24 OECD member countries.

The investment needs of Central and Eastern Europe are immense and cooperation between the specialist international financing institutions such as the IMF, World Bank, the EBRD and the EIB, as well as bilateral institutions and commercial banks, is essential to ensure the investment and financial support necessary for the region's effective economic development.

There are many opportunities for cooperation and co-financing of projects. For instance, we are already working closely together in a number of countries in the telecommunications sector, as we are in the areas of transport and energy. We have recently agreed to co-finance with the EBRD an important energy project in Bulgaria. In view of the large capital requirements of projects in the region, some form of co-financing with the EBRD and other bilateral or multilateral financing institutions will probably be the rule.

The recent Maastricht Treaty on European Union highlighted the EIB's role in the implementation of EC policies, and called for, amongst others, the establishment of trans-European networks in the areas of transport, telecommunications and energy. We are already carrying out a number of studies in the transport sector (see page 4) and, in a wider context, I could foresee the EIB co-operating with the EBRD in supporting the extension of essential international infrastructure, integrating Central and Eastern with Western Europe.

We are also finding that the EIB's international project financing experience accumulated over the past 35 years as the EC's long-term lending bank, and the EBRD's growing knowledge of conditions in Central and Eastern Europe, are complementary. This will enable the two institutions to work as catalysts encouraging economic development in the region.

Implications of European Union for the EIB

The decisions taken at Maastricht, in December 1991, by the European Council re-emphasised the concept of sustainable economic and social progress and the establishment of the single market without internal frontiers. The Maastricht Treaty on European Union establishes the framework for economic and monetary union, as well as measures for strengthening the Community's social and economic cohesion.

The Maastricht texts highlight the role of the European Investment Bank and reconfirm its function as the Community's long-term financing institution. While the EIB is not given fresh tasks, the Treaty provides an updating of the policy framework within which the Bank operates, and changes the economic and financial context in which it borrows and lends. With the gradual move towards economic and monetary union, the EIB's lending will become increasingly important, as a source of finance for capital investment assisting internal adjustment within the Community.

Over the past 35 years the EIB has built up a wide internationally gained experience in financing projects that promote European Community objectives, while at the same time raising the necessary volume of finance on capital markets to meet the needs of project promoters. As the Maastricht Treaty covers most of the major economic sectors, it is of direct relevance to the Bank's activities.

ECONOMIC AND SOCIAL COHESION

The main concentration of the EIB's lending has always been in support of regional development, an aspect well recognised in the Maastricht Treaty. Its Protocol on Economic and Social Cohesion notes that the EIB "is lending large and increasing amounts for the benefit of poorer regions" and reaffirms that the Bank "should continue to devote the majority of its resources to the promotion of economic and social cohesion" (1).

Historically about two-thirds of the Bank's total financing has gone towards the promotion of regional development by supporting capital investment in industry, infrastructure and energy located in the Community's less-favoured regions. In 1991 some ECU 8.5 billion went to for projects meeting this objective.

To ensure that the EIB can continue to fulfil this role in strengthening cohesion and, in particular, regional development, the Member States have also declared in the Protocol their "willingness to review the capital needs of the European Investment Bank as soon as necessary". As owners of the EIB, the EC Member States subscribe to its capital and have underlined their confidence in its activities by increasing this capital six times, doubling it on the last four occasions, to allow for a continuous growth in its activities. The Bank's Board of Governors last increased the subscribed capital to ECU 57.6 billion, 75% of which is paid in or due to be paid in, with effect from 1 January 1991. The subscribed capital sets the ceiling for outstanding loans and guarantees that the EIB may carry on its balance sheet. The ceiling currently stands at ECU 144 billion - 250% of the subscribed capital.

COOPERATION WITH OTHER EC INSTRUMENTS

The Treaty reaffirms that the Community's Structural Funds, through which the European Commission manages EC grant finance, "should continue to play a considerable part in the achievement of Community objectives in the field of cohesion" (2). A particular emphasis is placed on the aim of "reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions, including rural areas" (3).

As well as providing for coordination of Member States' economic policies (4), the Treaty expects the actions of the EIB, and the Structural Funds to help towards the achievement of these objectives. It specifically provides for the Bank to "facilitate the financing of investment programmes in conjunction with assistance from the Structural Funds and other Community financial instruments" (5), reinforcing its scope of action in favour of regional development, and underlines the close cooperation the EIB has with the European Commission, particularly since 1989 with the implementation of the reform of the Structural Funds.

The Maastricht Treaty also provides for the creation of a new financial instrument, the "Cohesion Fund" to finance projects "in the fields of environment and trans-European networks in the area of transport infrastructure" (6). The precise scale and nature of the new Fund and its *modus operandi* are to

be defined by the end of this year. It will operate in Member States with a per capita GNP of less than 90% of the Community average - Portugal, Greece, Ireland, and Spain - who implement a convergence programme. The Bank will coordinate its activities closely with this new instrument. It is already active in these countries, and financing projects that protect the environment and develop European communications networks are also key EIB objectives.

TRANS-EUROPEAN NETWORKS

An important element in the process of cohesion will be the continuing improvement of communications within the EC, binding Member States more closely together and removing barriers to the freedom of movement of goods, people, services and capital, essential to ensure the completion of the single market. The Maastricht Treaty calls for the Community to "contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructure" to enable "citizens of the Union, economic operators and regional and local communities to derive full benefit from the setting up of an area without internal frontiers" (7).

The financing of investment to improve transport and telecommunications links between Member States and regions within the Community, has always been an EIB objective and the level of its support for such projects has risen considerably in recent years. In 1991, it lent ECU 3.8 billion for communications projects, evenly divided between improvement of telecommunications networks, including the development of international linkages within the Community and for satellites, and transport, in particular for railways, including the high-speed train networks in France and Spain.

Amongst measures to encourage development of trans-European networks, the Maastricht decisions foresee that the "Community may decide to cooperate with third countries to promote projects of mutual interest and to ensure the inter-operability of networks" (8). The EIB will step up its support for major infrastructure projects of European interest which may also involve contributions to feasibility studies in conjunction with relevant bodies, particularly the European Commission (see article on page 4). The EIB already has a mandate from the EC to finance projects, up to ECU 1.7 billion, in priority sectors, including communications infrastructure, in neighbouring countries in Central and Eastern Europe.

In the context of energy infrastructure, the EIB has for long helped to finance major projects aimed at promoting the security of supplies within the Community. In 1991, the Bank provided ECU 2.7 billion for investment mainly to develop indigenous resources, in particular oil and gas deposits in the North Sea. It has also supported projects in neighbouring third countries that contribute to the development of trans-European energy networks, such as gaslines through Austria bringing supplies from Russia into the Community's gas pipeline network, as well as the development of oil and gas resources in the Norwegian sector of the North Sea.

PROTECTING THE ENVIRONMENT

Reflecting growing public concern on the need to protect the environment and the quality of life, the Maastricht treaty calls for "promoting measures at an international level to deal with regional, or world-wide environmental problems" (9). Environmental policy is to "aim at a high level of protection taking into account the diversity of situations in the various regions of the Community. It shall be based on the precautionary principle" and stresses the need for prevention of pollution at source and that the polluter should pay (10). In 1991, the EIB lent nearly ECU 2 billion for investment specifically aimed at protecting the environment, more than half concerned waste-water collection and treatment schemes and projects to improve the quality of water supplies. The Bank also lent for investment to reduce air pollution at power stations and industrial plants, as well as for improvements to the urban environment.

EIB support for environmental protection, however, goes further, to the extent that certain projects it finances, and that contribute to one or more of its other Community objectives, may also help to protect the environment. Above all, the EIB takes the environmental impact into account of all investment it considers before making a financing decision, and may persuade its project promoters to choose solutions for their projects that go beyond meeting obligatory legal requirements. On an international level, the EIB is also taking part in initiatives to protect and improve the environment and encourage sustainable development (11).

INDUSTRIAL COMPETITIVENESS

A major EIB objective is to support investment to make the Community's industry more competitive on world markets, particularly through industrial integration at a European level. It also supports the activities

of small and medium-sized enterprises through its global loans - credit arrangements with banks and financial institutions to expand their capacity to finance smaller-scale investment. In 1991, the EIB advanced ECU 3.3 billion towards projects meeting its industrial objectives, and over 9 500 SMEs benefited from its finance.

The international competitiveness of Community industry is crucial for its future development, and the Treaty states that "the Community and Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist". It calls for action aimed at "speeding up the adjustment of industry to structural changes", encouraging an environment favourable to the development of undertakings, particularly small and medium sized undertakings, as well as encouraging cooperation between undertakings and the better exploitation of the results of innovation, research and development (12).

EMU, THE ECU AND THE EIB

Most important for the future development of the Community, is the Treaty's framework and timetable for economic and monetary union - EMU. During the transitional phase the currency composition of the ECU is to be fixed and the European Monetary Institute established whose duties, amongst others, will be to "facilitate the use of the ECU and oversee its development including the smooth functioning of the ECU clearing system" (13).

The EIB, as the largest borrower and lender in the rapidly growing ECU market, has consistently fostered a wide use of this currency. The Bank's ECU borrowing has been in response to the requirements of its project promoters. During 1991, the EIB borrowed ECU 2.5 billion denominated in the currency on capital markets, which accounted for over 18% of its total borrowings - some ECU 13.7 billion equivalent. The Bank is a leading issuer of ECU bonds on international markets, accounting for 10% of all issues since 1981. In 1991, the Bank's loan disbursements in ECU amounted to over ECU 3 billion and its outstanding ECU-denominated loans stood at 11.5 billion at year-end.

The EIB also participates in the multilateral ECU clearing system for private banks operating in the European Community and set up in 1985. Managed by the Ecu Banking Association, of which the EIB is a founder member and a permanent vice-president, interbank ECU transactions are cleared daily under the system at the Bank for International Settlements at Basel.

REINFORCEMENT OF DEVELOPMENT COOPERATION

The Maastricht decisions also take into account the EC's long-standing close relationships with third countries, emphasising that Community policy in the sphere of development cooperation should foster "the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them" ⁽¹⁴⁾. The Treaty also reconfirms the EIB's role in implementation of the Community's cooperation measures, stating that the "European Investment Bank shall contribute, under the terms laid down in its Statute, to the implementation" of such policies ⁽¹⁵⁾. In third countries, the EIB's activities are mostly carried out within the framework of specific agreements that set ceiling amounts and time periods for commitments. The Bank currently operates in the African, Caribbean and Pacific States, in countries in the Mediterranean region, and more recently in Central and Eastern Europe ⁽¹⁶⁾.

(1) Protocol on Economic and Social Cohesion, Treaty on European Union, December 1991

(2) Protocol, as above

(3) Treaty on European Union: Article 130a

(4) Ibid: Article 2

(5) Ibid: Article 198e

(6) Ibid: Article 130d

(7) Ibid: Article 129b

(8) Ibid: Article 129c⁽³⁾

(9) Ibid: Article 130r⁽¹⁾

(10) Ibid: Article 130r⁽²⁾

(11) See article "Clearing up the Mediterranean and the Baltic Sea", EIB-Information No. 69, September 1991

(12) Treaty, Article 130f⁽¹⁾

(13) Ibid: Article 109f⁽²⁾

(14) Ibid: Article 130u⁽¹⁾

(15) Ibid: Article 130w⁽²⁾

(16) See EIB-Information No. 70, November 1991

Ecu

Below are the ecu values in national currencies, as at 31 March 1992, these rates are applied to the second quarter in preparing financial statements and operational statistics of the EIB:

DEM	2.04206	BEF	42.0371
GBP	0.714742	LUF	42.0371
FRF	6.9242	DKK	7.9267
ITL	1541.37	GRD	237.167
NLG	2.29965	IEP	0.766969
ESP	129.129	PTE	176.072
		USD	1.24379

The EFTA Financial Mechanism

On 2nd May this year, the Agreement on the European Economic Area to establish a unified economic market of 19 countries with a population of over 380 million was signed in Porto, Portugal. The EEA Agreement brings together the 12 EC Member States and the seven members of the European Free Trade Association (EFTA) - Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland. Following ratification by national Parliaments, the Agreement will come into effect in 1993 and provide the EFTA Member States with access to the single market with freedom of movement for goods, persons, services and capital. The EEA is viewed as a preliminary step towards membership of the Community by many of the EFTA members: Austria, Finland, Sweden and Switzerland have already made applications.

Under the terms of the EEA Agreement, the EFTA states have established a "Financial Mechanism", which is to "provide financial assistance to the development and structural adjustment" of less-favoured regions of the European Community and is the subject of a Protocol attached to the Agreement. The EFTA states have extended the mandate for its execution to the EIB. A "Financial Mechanism Committee" of representatives of the EFTA States is to be established to approve the use of the funds advanced under the Mechanism.

The Mechanism's financial assistance is to be committed between 1993 and 1997, and will be provided in two forms:

interest rebates of 3 percentage points, to be made available on up to ECU 1.5 billion of loans from the EIB's own resources - the bulk of which is raised through the Bank's borrowings on capital markets. Interest rebates will be applied for ten years for any one loan.

direct grants, for a total of ECU 500 million, will also be disbursed by the EIB on the basis of proposals from the beneficiary EC Member States.

This financial assistance (of subsidised loans and grants) will go towards projects carried out by public authorities and public or private undertakings in Greece, the Island of Ireland, Portugal and in less-favoured regions of Spain. Priority is to be given to projects which place particular emphasis on the environment (including urban development), on transport (including transport infrastructure) or on education and training. In the private sector, special consideration will be given to small and medium-sized enterprises.

On 30 June 1992, the EFTA states and the EIB will sign a "Cooperation Agreement" on the implementation of the Financial Mechanism. This agreement provides that the interest rate rebates on EIB loans shall be for projects eligible for financing according to the normal criteria set out in the Bank's Statute. The subsidised EIB loans and the grants shall be denominated and, as far as possible, disbursed in ECUs, and be committed in equal tranches over the five year period.

The share of each benefiting country in the overall level of financial assistance is to be determined by the European Community. Applications for the subsidised loans are to be addressed directly to the Bank. The EFTA Financial Mechanism Committee will provide guidelines for the operations the Bank carries out under the mandate.

The Commission and the EIB will also sign an "Agreement on Cooperation" on 30 June for the implementation of the Financial Mechanism. According to the normal procedures established for EIB financing, the agreement stipulates that the EIB will seek the opinion of the Commission on proposals for subsidised loans and grants. In formulating its opinion, the Commission shall verify that the proposed projects are in conformity with Community legislation and objectives and, in particular, that they are consistent with actions in the same regions supported by the Community's Structural Funds and other financial instruments.

The Financial Mechanism enables the EIB for the first time to manage grant finance for investment projects in the Community. (Outside the Community the EIB operates within the framework of the Community's development cooperation policy, and under mandate from the Member States or the EEC, the Bank manages grant aid in the form of risk capital and interest rate rebates on its loans in the Mediterranean region and under the fourth Lomé Convention in the African, Caribbean and Pacific states.)

100, bd Konrad Adenauer — L-2950 Luxembourg — tel. 4379-1 — telex 3530 bnkeu lu — fax 43 77 04 • Department for Italy: Via Sardegna, 38 — I-00187 Rome — tel. 4379-1 — telex 611130 bnkeu i — fax 487 34 38 • Athens Office: Amalias, 12-GR-10557 Athens — tel. 3220 773/774/775 — telex 222126 bnkeu gr — fax 3220 776 • Lisbon Office: Avenida da Liberdade, 144-156, 8° — P-1200 Lisbon — tel. 342 89 89 or 342 88 48 — telex 15576 bnkeu p — fax 347 04 87 • London Office: 68, Pall Mall — London SW1Y 5ES — tel. 839 3351 — telex 919159 bnkeu g — fax 930 9929 • Madrid Office: Calle José Ortega y Gasset, 29 — E-28006 Madrid — tel. 431 13 40 — telex 44670 bnkeu e — fax 431 13 83 • Representative Office in Brussels: — Rue de la Loi 227 — B-1040 Bruxelles — tel. 230 9890 — telex 21721 bnkeu b — fax 230 58 27

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